



# An Audit of the **Texas A&M Veterinary Medical Diagnostic Laboratory**

**Audit Report #557-22-01**  
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# Executive Summary

## Purpose and Scope

The objectives of this audit were to determine whether the Texas A&M Veterinary Medical Diagnostic Laboratory (Laboratory):

- Procured contracts according to applicable state laws and Comptroller requirements.
- Processed payments according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Maintained documentation to support those payments.
- Properly recorded capital and high-risk assets.
- Implemented appropriate security over payments.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office) and covers the period from Sept. 1, 2020, through Aug. 31, 2021.

## Background

In 1967, the Texas Legislature established the Texas A&M Veterinary Medical Diagnostic Laboratory. The Laboratory's mission is to promote animal health and protect agricultural, companion animal and public health in Texas and beyond through excellence in veterinary diagnostic services.

**Texas A&M Veterinary Medical Diagnostic Laboratory website**  
<https://tvmdl.tamu.edu/>

## Audit Results

The Laboratory largely complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll, travel, fixed assets or security. However, the Laboratory should consider making improvements to its purchase, payment card, and contracts/procurement processes, and expenditure processing access controls.

Auditors did not reissue any findings from the previous audit issued in August 2013. An overview of audit results is presented in the following table.



## Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Purchase, Payment Card and Contract Transactions</u>	Did purchase, payment card and contract transactions comply with the GAA, pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"><li>• Missing vendor compliance verifications.</li><li>• Failure to report to the Vendor Performance Tracking System (VPTS).</li><li>• Late reporting to the Legislative Budget Board (LBB).</li></ul>	Compliant, Findings Issued
Travel and Travel Card Transactions	Did travel and travel card transactions comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Fixed Assets	Were tested assets in their intended location and properly reported in the Laboratory's internal system?	No issues	Fully Compliant
Targeted Analysis	Did the Laboratory comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Internal Control Structure</u>	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	Control weakness over expenditure processing	Control Weakness Issues Exist





Area	Audit Question	Results	Rating
Security	Are Laboratory employees who are no longer employed or whose security was revoked properly communicated to the Comptroller's office?	No issues	Fully Compliant

## Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations for the Laboratory include:

- Retain all documents relating to procurement and contracts and ensure the required procurement documents are completed.
- Report contract awards to the Legislative Budget Board (LBB) and report completed contracts to the Vendor Performance Tracking System (VPTS).
- Review its controls over expenditure processing and segregate each task to the maximum extent possible to ensure no individual can process payments without oversight.



# Detailed Findings

## Payroll Transactions

Auditors developed a sample totaling \$69,225.48 from a group of 20 employees and 130 payroll transactions to ensure the Laboratory complied with the GAA, [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed no exceptions in this group of transactions. Additionally, a limited sample of 10 voluntary contributions transactions was audited with no exceptions identified.

## Purchase/Procurement and Contract Transactions

Auditors developed a sample of 30 purchase transactions totaling \$419,883.21 and 20 payment card transactions totaling \$36,538.14. One contract with a value of \$157,326.60 was also selected and a sample of five contract payment transactions totaling \$45,079.66 were reviewed to ensure the Laboratory complied with the GAA, [eXpendit \(FPP I.005\)](#) and pertinent statutes. Audit tests revealed the following exceptions for these groups of transactions.

Contract	Amount	Type of Service	Procurement Cycle				
			Planning	Procurement Method Determination	Vendor Selection	Contract Formation/Award	Contract Management
Contract A	\$157,326.60	Purchase of testing supplies	No exceptions	No exceptions	No exceptions	Missing vendor compliance verifications	No exceptions

## Missing Vendor Compliance Verifications

Auditors identified the following instances where the Laboratory was unable to provide evidence of performing the vendor compliance verifications (VCV) for 22 purchase transactions, 12 payment card transactions and one contract reviewed. The Laboratory must provide evidence, such as a screen print, showing that each verification was performed.

## Warrant Hold Check

The Laboratory did not document the vendor's warrant hold status verification before entering into one contract and making 21 purchase transactions and 12 payment card transactions. The Laboratory must check warrant hold status if payment is made with local funds or if a payment card purchase is over \$500. See [TexPayment Resource – Hold Special Circumstances, Local Funds](#) and [Payment Card Purchases](#). The



Laboratory cannot proceed with a purchase made with local funds or a payment card purchase over \$500 until the warrant hold is released. For transactions involving a written contract, the warrant hold check must be performed no earlier than the seventh day before, and no later than the date of contract execution if payments under the contract will be issued with local funds. If the vendor is on warrant hold, the Laboratory may not enter into a written contract with the person unless the contract requires the Laboratory's payments under the contract to be applied directly toward eliminating the person's debt or delinquency. The requirement specifically applies to any debt or delinquency, regardless of when it arises. See [Texas Government Code, Section 2252.903\(a\)](#) and [eXpendit – Restricted Expenditures – Persons Indebted to the State](#).

According to the Laboratory, the state purchase policy does not specify that it is required to print and retain a copy of the vendor hold status report, it notes only that the status is to be verified. The Laboratory includes this information in its training for units but does not retain proof of performance. For the purchase transactions and the contract, the Laboratory notes that the verifications have been performed on the dated internal order audit sheets, which is an internal checklist it created. However, the Laboratory has never maintained proof of each verification at the time it was performed.

### **Iran, Sudan and Foreign Terrorist Organization List Check**

The Laboratory was unable to provide documentation showing it performed the Iran, Sudan and foreign terrorist check before entering into one contract and making 22 purchase transactions. Agencies may not contract with a company doing business with Iran, Sudan or a foreign terrorist organization. See [Texas Government Code, Section 2252.152](#). Each agency must check the divestment lists before award to determine if the potential awardee is in violation of this requirement. The Texas Safekeeping Trust Company maintains the divestment lists and posts them to the Comptroller's [Divestment Statute Lists website](#). Agencies cannot award a contract to a vendor that is in violation. According to the Laboratory, the verifications were performed and noted on the dated internal order audit sheets, but the Laboratory has never maintained proof of performing the verifications.

### **Recommendation/Requirement**

The Laboratory must conduct all VCV checks before any purchase, contract award, extension or renewal, and must retain results from the specified website in the procurement file as evidence.



## Laboratory Response

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*The Purchasing Office already has an established process to conduct the VCV checks. At the time of purchase, the buyer performs the VCV checks and documents completion on the purchase order checklist. Additional steps will be implemented to print VCV checks for transactions over \$10K that are processed through the Purchasing Office. TVMDL will review procedures for delegated purchases under \$10,000 and how to implement VCV checks on these purchases due to the large volume of transactions.*

## Failure to Report to the Vendor Performance Tracking System

Auditors identified five contract-related purchase transactions that were not reported to VPTS as required for contracts over \$25,000. The Laboratory stated it believed universities were exempt from this reporting requirement.

The Statewide Procurement Division (SPD) administers VPTS for use by all ordering agencies per [34 Texas Administrative Code Section 20.115](#). The VPTS relies on agency participation to gather information on vendor performance. Ordering agencies are also encouraged to report vendor performance for purchases under \$25,000. Agencies submit the vendor performance form (VPF) electronically via the SPD web application portal. See [Texas Government Code, Sections 2155.089](#) and [2262.055](#). While Texas SB 799, 87th Legislature, Regular Session (2021), amended [Texas Government Code, Section 2155.089\(c\)](#) to exempt institutions of higher education from VPTS reporting requirements for contract solicitations that began on or after Sept. 1, 2021, all of the transactions and contracts reviewed for this audit were solicited before the bill's implementation date.

## Recommendation/Requirement

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For solicitations that began before Sept. 1, 2021, the Laboratory must report purchases and contracts over \$25,000 to VPTS to identify suppliers demonstrating exceptional performance, aid purchasers in making a best value determination based on vendor past performance and protect the state from vendors with unethical business practices. Reporting should also identify vendors with repeated delivery and performance issues, provide performance scores in four measurable categories for Centralized Master Bidders List (CMBL) vendors, and track vendor performance for delegated and exempt purchases.

## Laboratory Response

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*The Agency operates as an Institute of Higher Education (IHE) under Texas Education Code 51.9 335 and is exempt from the requirements of §2155.089. Note that this was further clarified in the past legislative session by SB799 to amend 2155.089(c)(3)(C). TVMDL will review contracts executed before Sept. 1, 2021 for VPTS applicability.*





## Late Reporting to the Legislative Budget Board (LBB)

Auditors identified eight contract-related purchase transactions where the Laboratory failed to timely report the information to LBB. According to the [General Appropriations Act \(GAA\), Article IX, Section 7.04](#), a state agency or institution of higher education must report any contract over \$50,000 to the LBB before the 30th calendar day after awarding the contract. The submission must include required documentation such as the award, solicitation documents, renewal, amendments, addendums, extensions, attestation letters and certain types of supporting records related to contracts; see the [LBB Contract Reporting Guide](#). The Laboratory stated it has reminded all buyers regarding the importance of timely reporting to LBB.

### Recommendation/Requirement

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The Laboratory must report contract awards including amendments to the LBB to comply with the [General Appropriations Act \(GAA\), Article IX, Section 7.04](#) and the [LBB Contract Reporting Guide](#).

### Laboratory Response

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*The Purchasing Office checklist includes in its processes the LBB reporting requirement. All buyers have been reminded of the timeliness of requirement and will report accordingly.*

## Travel and Travel Card Transactions

Auditors developed a sample of five travel transactions totaling \$1,418.34 to ensure the Laboratory complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Using a report generated outside the sample, auditors also selected 10 travel card transactions totaling \$4,114.64. Audit tests revealed no exceptions for this group of transactions.

## Fixed Assets

Auditors developed a sample of 10 transactions of fixed assets to test for proper tracking in the Laboratory's internal system. All assets tested were in their intended location and properly tagged. The audit test revealed no exceptions for these transactions.

## Targeted Analysis

The audit included a review of several special reports generated outside the sample. Auditors reviewed the Laboratory's procedures for processing these transactions to determine compliance with state rules, regulations and processing requirements. Audit tests revealed no exceptions in the targeted analysis reports.



## Internal Control Structure

The review of the Laboratory's internal control structure was limited to obtaining reports identifying current user access. The audit tests conducted revealed the following exception in user access.

### Control Weakness Over Expenditure Processing

Auditors reviewed certain limitations that the Laboratory placed on its accounting staff's ability to process expenditures. Auditors reviewed the Laboratory's security in USAS, Texas Identification Number System (TINS) and voucher signature cards that were in effect on Jan. 24, 2022.

The Laboratory had one employee with the ability to enter/edit a payment voucher in USAS and change the warrant hold status of a vendor in TINS. The same employee was on the agency's signature card (can approve a paper voucher).

The Laboratory stated that its related policy has changed but the employee's access has not changed since it was set up in USAS. As a result of the audit, the employee access has now been changed to inquiry only in USAS and the employee was removed from the voucher signature card.

### Recommendation/Requirement

The Laboratory should review its controls over expenditure processing and segregate each task to the maximum extent possible to ensure no individual is able to process payments without oversight.

### Laboratory Response

*Employee's security access has not changed since she was set up with USAS access. Policy has apparently changed and her access was not updated. Her access has now been changed and future employees will adhere to the new policy.*

## Security

The audit included a security review to identify the Laboratory's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be met so security can be revoked in a timely manner. Audit tests revealed no exceptions.



# Appendices

## Appendix 1 — Objectives, Scope, Methodology, Authority and Team

### Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
  - Uniform Statewide Accounting System (USAS),
  - Uniform Statewide Payroll/Personnel System (USPS),
  - Standardized Payroll/Personnel Reporting System (SPRS),
  - Human Resource Information System (HRIS) or
  - The Centralized Accounting and Payroll/Personnel System (CAPPS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

### Audit Scope

Auditors reviewed a sample of the Texas A&M Veterinary Medical Diagnostic Laboratory (Laboratory) payroll, travel, contracting and purchase transactions that processed through USAS from Sept. 1, 2020, through Aug. 31, 2021, to determine compliance with applicable state laws.

The Laboratory received appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

***Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.***

The audit provides a reasonable basis for the findings set forth in this report. The Laboratory should implement the recommendations listed in the Detailed Findings of this report. It is the Laboratory's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure the Laboratory's documents comply in the future. The Laboratory must ensure the findings discussed in this report are resolved.





## **Audit Methodology**

The Expenditure Audit section uses limited sampling to conduct a post-payment audit, and relies on professional judgment to select areas the auditor considers high risk.

## **Fieldwork**

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

## **Audit Authority**

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

## **Audit Team**

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## Appendix 2 — Definition of Ratings

### Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none"><li>• Lack of appropriate and sufficient evidentiary matter.</li><li>• Restrictions on information provided to auditor.</li><li>• Destruction of records.</li></ul>	Scope Limitation

### Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

### Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.